

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

SANDISK CORPORATION,

Plaintiff,

v.

MOBILE MEDIA IDEAS LLC,

Defendant.

No. C 11-00597 CW

ORDER DENYING
DEFENDANT'S
MOTION TO DISMISS
(Docket No. 10)

Plaintiff SanDisk Corporation seeks a declaratory judgment of invalidity, unenforceability and non-infringement of nineteen patents owned by Defendant Mobile Media Ideas LLC (MMI). MMI moves to dismiss SanDisk's action for lack of subject matter jurisdiction. SanDisk opposes the motion. The motion will be decided on the papers. Having considered the papers submitted by the parties, the Court DENIES MMI's motion.

BACKGROUND

This declaratory judgment action concerns U.S. Patent Nos. 6,427,078; 5,812,954; 5,490,170; 5,557,541; 5,841,979; 5,914,941; 6,002,390; 6,125,143; 6,385,386; 6,393,430; 6,441,828; 6,446,080; 6,549,942; 6,975,732; 7,190,971; 7,313,647; 7,349,012; 6,725,155; and 7,111,069, all of which are allegedly owned by MMI.

1 On April 16, 2010, MMI allegedly invited SanDisk to enter into
2 patent license negotiations regarding the patents-in-suit, which
3 MMI believed were infringed by SanDisk's digital media players. On
4 multiple occasions since then, MMI allegedly has accused SanDisk
5 and its customers of infringing the patents-in-suit and invited
6 SanDisk to discuss potential licensing arrangements.

7 On January 27, 2011, an MMI employee emailed SanDisk, stating,
8 "Because Sandisk continues to offer products that make use of at
9 least some of MMI's patents, your products remain unlicensed
10 leaving both Sandisk and its customers with patent infringement
11 liability." Lippetz Decl., Ex. B.

12 SanDisk initiated this action on Wednesday, February 9, 2011.
13 On February 15, 2011, another MMI employee emailed a SanDisk
14 employee, stating,

15 MMI offered SanDisk a license under certain MMI patents
16 which we understand are utilized in SanDisk's media
17 player products, and we proposed the meeting for last
18 Wednesday to discuss that further. A few hours prior to
19 that meeting, however, MMI was informed that SanDisk had
20 previously obtained a license under those patents from
21 the prior owner. Therefore, there was no need to get
22 together and the meeting was cancelled.

23 In light of this, MMI does not intend to assert its
24 current portfolio of patents against SanDisk's current
25 line of products. And because there is no dispute
26 between the parties, there is no reason for SanDisk to
27 continue pursuing its action against MMI and we will
28 cooperate with you in the withdrawal of your complaint.

Horn Decl., Ex. A.

In his declaration, MMI's CEO Lawrence Horn states,

MMI has no basis to sue SanDisk for infringement of any
of the patents identified in the Complaint based on any
of SanDisk's media player products as they currently
exist. Instead, as to seventeen of the nineteen patents
identified in the Complaint, SanDisk obtained a license

1 from the prior owner, allowing it to use the patented
2 technology. As to the remaining two patents identified
3 in the Complaint, SanDisk's current products do not
4 infringe those patents.

5 Horn Decl. ¶ 3. MMI now "stipulates and covenants that it will not
6 sue SanDisk, now or in the future, for infringement of any of the
7 patents identified in SanDisk's Complaint filed in this action on
8 February 10, 2011 [sic], based upon past or current versions of
9 SanDisk's media player products." Horn Decl. ¶ 4.

10 LEGAL STANDARD

11 Subject matter jurisdiction is a threshold issue which goes to
12 the power of the court to hear the case. Federal subject matter
13 jurisdiction must exist at the time the action is commenced. GAF
14 Building Materials Corp. v. Elk Corp. of Dallas, 90 F.3d 479, 483
15 (Fed. Cir. 1996). To sustain subject matter jurisdiction in the
16 declaratory judgment context, an "actual controversy" must exist.
17 Janssen Pharmaceutica, N.V. v. Apotex, Inc., 540 F.3d 1353, 1359
18 (Fed. Cir. 2008). When such a controversy is lacking, dismissal is
19 appropriate under Rule 12(b)(1) because the district court lacks
20 subject matter jurisdiction over the claim. Fed. R. Civ. P.
21 12(b)(1).

22 BACKGROUND

23 MMI argues that, because of its covenant not to sue, SanDisk
24 does not present an actual controversy and this action must be
25 dismissed for lack of subject matter jurisdiction. SanDisk
26 contends that, because MMI's covenant does not include a promise
27 not to sue SanDisk's customers, an actual controversy remains.

28 The Declaratory Judgment Act permits a federal court to

1 "declare the rights and other legal relations" of parties to "a
2 case of actual controversy." 28 U.S.C. § 2201. Before passage of
3 the Act, "competitors were victimized by patent owners who engaged
4 in extrajudicial patent enforcement with scare-the-customer-and-run
5 tactics that infected the competitive environment of the business
6 community with uncertainty and insecurity and that rendered
7 competitors helpless and immobile so long as the patent owner
8 refused to sue." Teva Pharm. USA, Inc. v. Novartis Pharm. Corp.,
9 482 F.3d 1330, 1336 n.2 (Fed. Cir. 2007) (citations, internal
10 quotation and editing marks omitted). The Act "was intended 'to
11 prevent avoidable damages from being incurred by a person uncertain
12 of his rights and threatened with damage by delayed adjudication.'" Cat Tech LLC v. Tubemaster, Inc., 528 F.3d 871, 879-80 (Fed. Cir.
13 2008).

14
15 The "actual controversy" requirement of the Act is the same as
16 the "case or controversy" requirement of Article III of the United
17 States Constitution. Teva, 482 F.3d at 1337. To determine whether
18 an actual controversy exists, a court must consider whether "all
19 the circumstances" demonstrate "there is a substantial controversy,
20 between parties having adverse legal interests, of sufficient
21 immediacy and reality to warrant the issuance of a declaratory
22 judgment." MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118, 127
23 (2007) (citation and internal quotation marks omitted). Exercise
24 of declaratory judgment jurisdiction is discretionary. Cat Tech
25 LLC, 528 F.3d at 883.

26 A patentee's covenant not to sue may preclude a declaratory
27 judgment action. Revolution Eyeware, Inc. v. Aspx Eyeware, Inc.,

1 556 F.3d 1294, 1296-98 (Fed. Cir. 2009). "Whether a covenant not
2 to sue will divest the trial court of jurisdiction depends on what
3 is covered by the covenant." Id. at 1297.

4 MMI's covenant not to sue is not sufficient to extinguish the
5 actual controversy in this case. By only addressing SanDisk, MMI's
6 covenant does not eliminate the possibility that SanDisk's
7 customers may face a patent infringement lawsuit by MMI. In the
8 face of this uncertainty, SanDisk's relationships with its
9 customers could suffer, causing harm to SanDisk's business. MMI
10 contends that there can be no controversy as to SanDisk's customers
11 because it has never sued or contacted them. However, in
12 correspondence to SanDisk, MMI accused SanDisk's customers of
13 patent infringement and indicated that they are susceptible to
14 liability. Although MMI may not have interacted with SanDisk's
15 customers, its statements to SanDisk evince "an assertion of rights
16 and a willingness to pursue litigation" regarding the patents-in-
17 suit. Cingular Wireless v. Freedom Wireless, Inc., 2007 WL
18 1876377, at *3 (D. Ariz.).

19 MMI contends that, while its covenant not to sue does not
20 expressly pertain to SanDisk's customers, it affords them
21 protection from suit based on the patent exhaustion doctrine. MMI
22 cites TransCore LP v. Electric Transaction Consultants Corp., in
23 which the Federal Circuit held that an alleged infringer had a
24 defense of patent exhaustion¹ because it purchased the accused

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26 ¹ "The longstanding doctrine of patent exhaustion provides
27 that the initial authorized sale of a patented item terminates all
28 patent rights to that item." Quanta Computer, Inc. v. LG Elecs.,
Inc., 553 U.S. 617, 625 (2008).

1 product from an entity that the patentee had covenanted not to sue
2 as part of a settlement. 563 F.3d 1271, 1276-77 (Fed. Cir. 2009).
3 The court explained that, because the covenant was unconditional,²
4 it authorized sales of the accused product for the purposes of
5 patent exhaustion. Id. at 1276. Absent a sale, however, the
6 patent exhaustion doctrine does not apply and a SanDisk customer
7 may be exposed to liability. Quanta, 553 U.S. at 625.
8 Furthermore, patent exhaustion is an affirmative defense for which
9 the alleged infringer has the burden of proof. ExcelStor Tech.,
10 Inc. v. Papst Licensing GMBH & Co. KG, 541 F.3d 1373, 1376 (Fed.
11 Cir. 2008); Monsanto Co. v. Scruggs, 459 F.3d 1328, 1334 (Fed. Cir.
12 2006) (referring to patent exhaustion as an affirmative defense).
13 Although MMI insists that its covenant as to SanDisk equally
14 shields SanDisk's customers, MMI's unexplained reluctance to
15 promise expressly not to sue them raises concern. Thus, because
16 MMI's covenant does not eliminate all uncertainty for SanDisk's
17 customers, it does not end the controversy in this case.

18 The Court concludes that, considering the totality of the
19 circumstances, "there is a substantial controversy, between parties
20 having adverse legal interests, of sufficient immediacy and reality
21 to warrant the issuance of a declaratory judgment." MedImmune, 549
22 U.S. at 127. Until MMI expressly covenants not to sue SanDisk's
23 customers for infringement of any of the patents-in-suit based upon
24 past or current versions of SanDisk's media player products, this

25
26 ² The settlement agreement provided that the patentee "agrees
27 and covenants not to bring any demand, claim, lawsuit, or action
28 against . . . for future infringement" TransCore, 563 F.3d
at 1276.

1 case will not be dismissed.

2 CONCLUSION

3 For the foregoing reasons, MMI's motion to dismiss is DENIED.
4 (Docket No. 10.)

5 A case management conference will be held on May 31, 2011 at
6 2:00 p.m.

7 IT IS SO ORDERED.

8
9 Dated: 5/23/2011


CLAUDIA WILKEN
United States District Judge